

First Day Hearing Presentation

In re Stoli Group (USA), LLC, et al. (Case No. 24-80146-swell)

United States Bankruptcy Court for the Northern District of Texas

December 3, 2024

STOLI
GROUP



The Debtors and Advisors



Stoli Group Background

- Stoli USA and KO are affiliates and subsidiary companies within the “Stoli Group” (formerly, the “SPI Group”)—a vertically integrated global network and enterprise headquartered in Luxemburg that manufactures, produces, markets, sells, and distributes vodka, bourbon, tequila, wine, scotch, rum, ginger beer, and other alcoholic and non-alcoholic beverages throughout the world (collectively, “Stoli Products”). The Stoli Group participates in over 176 markets worldwide and collaborates with a network of over two hundred distributors. The Stoli Group boasts a rich heritage dating back to the early part of the last century and utilizes wholly-owned and affiliated production facilities located in Argentina, Latvia, Spain, Mexico, the United Kingdom, and the United States to manufacture and produce the wide variety of Stoli Products that the Stoli Group offers in the marketplace.
- Some of the iconic and well-known brands and Stoli Products within the spirits division of the Stoli Group include Stoli® Vodka, elit® Vodka, Bayou® Rum, Kentucky Owl®, Wiseman®, Cenote® Tequila, Se Busca® Mezcal, and Tulchan® Gin. In the wine portfolio of Stoli Products, the Stoli Group’s slate of brands includes Achaval Ferrer® (Argentina) and Arínzano® (Spain), with distribution rights in Super-Tuscan Ornellaia, Masseto, Luce and CastelGiocondo, under the Tenute Di Toscana Company, and Chateau Miraval and its family of brands, including Miraval®, Muse®, Studio® and Fleur de Miraval®.
- Pursuant to an executive order of Russian President Vladimir Putin, issued in March 2000 shortly after his coming to power, prescribing to “reinstate and protect the state’s rights” in vodka trademarks privatized in the 1990s, the Stoli Group has been defending its rights to the Stolichnaya and Moskovskaya vodka trademarks against Russian state enterprise FKP Sojuzplodoimport over more than twenty-three (23) years in courts of multiple jurisdictions, including the United States. The Stoli Group has been forced to spend dozens of millions of dollars on this long-term court battle across the globe with the Russian authorities.
- In August 2024, the Stoli Group’s IT infrastructure suffered severe disruption in the wake of a data breach and ransomware attack. The attack caused substantial operational issues throughout all companies within the Stoli Group, including Stoli USA and KO, due to the Stoli Group’s enterprise resource planning (ERP) system being disabled and most of the Stoli Group’s internal processes (including accounting functions) being forced into a manual entry mode. These systems will be fully restored no earlier than in the first quarter of 2025.

Stoli (USA)

- Stoli USA is a wholly owned subsidiary of S.P.I. Spirits (Cyprus) Limited—a limited company formed under the laws of Cyprus and an entity within the Stoli Group. Stoli USA was formed in February 2013 to serve as the Stoli Group’s sole and exclusive purchaser, importer, and distributor of finished Stoli Products in the United States market. Prior to the formation and establishment of Stoli USA, the Stoli Group imported and supplied Stoli Products to the United States market but did not have an independent distribution and marketing presence within the United States.
- To carry out its designated role within the Stoli Group as the exclusive purchaser, importer, and distributor of finished Stoli Products in the United States, Stoli USA is party to certain exclusive contracts and agreements with other entities in the Stoli Group. Those entities largely serve as the manufacturers and producers of finished Stoli Products and own and hold the intellectual property, marketing, and branding rights associated with the Stoli Products sold and distributed by Stoli USA. Stoli USA’s contracts and agreements with its affiliates, including licenses and agreements allowing Stoli USA to utilize trademarks, copyrights, images, and other marketing materials associated with Stoli Products, provide Stoli USA with the exclusive right to sell and distribute finished Stoli Products in the United States and utilize associated intellectual property, marketing, and branding rights and materials to do so.
- The vast majority of finished Stoli Products that are shipped from overseas and supplied to the United States market are imported and sold by Stoli USA directly to regional United States distributors for resale in “open” and “franchise” states (such as Arizona, California, Colorado, Illinois, and Texas). A smaller portion of finished Stoli Products is imported by Stoli USA and stored at a third-party distribution center in Baltimore, Maryland, from which deliveries and sales are later made to “control” states (such as Alabama, Michigan, Ohio, Utah, etc.), likewise through regional distributors.



Kentucky Owl

- KO is a wholly owned subsidiary of SPI Worldwide Trade Limited—a limited company formed under the laws of Cyprus and another entity within the Stoli Group. KO was established in January 2017 as part of the Stoli Group’s desire to enter a new segment of the spirits industry and initiative aimed at reviving the Kentucky Owl® brand of rye and bourbon whiskeys, which has roots in the United States dating back to the 1800s. KO produces various batches and iterations of its ultra-premium whiskeys, including “Batch #11,” “Batch #12,” “Confiscated,” and “The Wiseman™” and also rolls out limited releases, including “Mardi Gras XO Cask,” St. Patrick’s Edition,” “Takumi Edition,” and “Maighstir Edition.” KO’s fine whiskeys are included in the vast array of Stoli Products offered and sold by the Stoli Group in the global marketplace, including Stoli USA in the United States.
- Operationally, KO serves as a holding company for the raw materials used to produce its lines of whiskey. KO has no direct employees and does not own or operate any production or storage facilities directly. Instead, KO uses the services of a non-debtor affiliate in Bardstown, Kentucky, to distill whiskey in bulk barrels in accordance with KO’s desired specifications. Once the product is distilled, the barrels are stored at the third party’s Kentucky facility to age for an extended period of time until the whiskey within the barrels has fully matured.
- Once the aging process is complete, and as requested by KO, barrels are shipped from the Kentucky storage facility to KO’s non-debtor affiliate, Louisiana Spirits LLC, where the aged whiskey is mixed, bottled, and transformed from raw product into finished ready-to-be-sold goods. Pursuant to various exclusive rights contracts and agreements with its affiliates, KO then sells its finished goods solely to companies within the Stoli Group, which, in turn, distribute and sell KO’s ultra-premium whiskey products across the world. Notably, though, Stoli USA is the largest purchaser and distributor of KO’s finished goods.

Events Leading up to Chapter 11 Filing

- Despite the Debtors' long history of being a leader in the United States and globally in the alcohol and spirits industry, the Debtors are currently facing significant balance sheet and liquidity challenges caused by a range of factors. Indeed, over the past several years, numerous atypical events have put a great strain on the Debtors' financial condition, including (1) a decline and softening of demand for alcohol and spirits products post-COVID and especially beginning in 2023 and continuing into 2024, (2) increased cost and inflation stemming from the overall global economy, (3) the aforementioned severe operational disruption caused by a data breach and ransomware attack in August 2024 (including issues with compliance by the Debtors with the reporting requirements of the Lender), and (4) the dispute with the Lender (as explained above), which not only caused liquidity issues, but has also caused the Debtors to shift their time, energy, and focus on placating the Lender in lieu of focusing exclusively on right-sizing and improving their operations.
- With all of those challenges accumulating simultaneously, on November 27, 2024, the Debtors elected to file voluntary petitions for relief under chapter 11 of the Bankruptcy Code, thereby initiating the Chapter 11 Cases. The Debtors determined that the filing of these Chapter 11 Cases was necessary to maximize value for the benefit of all creditors.
- Additionally, on October 29, 2024, the Lender sent a total of ten (10) letters (the "KO Vendor Letters") to various trade vendors, suppliers, and storage providers utilized by KO (collectively, the "KO Vendors"), among other things, (a) informing the KO Vendors, that KO was in default under the KO Loan Documents and that the Lender did not consent to any of KO's inventory currently held by the KO Vendors being sold, removed, transported, or otherwise disposed of by KO or anyone else without the Lender's prior written consent; and (b) demanding that the KO Vendors not acknowledge, facilitate, or undertake any further sales, removal, transportation or other disposition of any KO inventory held by the KO Vendors without the Lender's prior written consent. The Lender's service of the KO Vendor Letters was extremely disruptive and put a significant strain on the Debtors' operations and effectively accelerated the necessity of the Debtors' bankruptcy filings.
- Prior to filing bankruptcy, the Debtors retained its professional team and appointed Steven Wybo of Riveron Consulting, as their Chief Restructuring Officer.

Debtors' Prepetition Capital Structure

- Via that certain Credit Agreement dated October 28, 2022, by and between Debtor Stoli USA and the Lender (the "Stoli Credit Agreement"), and, together with related loan documents, agreements, or instruments executed in connection with the Stoli Credit Agreement, and as amended, restated, modified, or supplemented, the "Stoli Loan Documents"), Debtor Stoli was provided a revolving credit facility in an aggregate amount of \$50,000,000 (the "Stoli Revolver").
- Pursuant to that certain Amended and Restated Credit Agreement dated as of February 3, 2023, by and between Debtor KO and the Lender (the "KO Credit Agreement"), and, together with related loan documents, agreements, or instruments executed in connection with the Stoli Credit Agreement, and as amended, restated, modified, or supplemented, the "KO Loan Documents," and collectively with the Stoli Loan Documents, the "Prepetition Loan Documents"), Debtor KO was provided a revolving credit facility in an aggregate amount of \$40,000,000 (the "KO Revolver," collectively with the Stoli Revolver, the "Revolver Commitment").
- As of the Petition Date, the Debtors' aggregate principal outstanding funded debt obligations under the Prepetition Loan Documents total approximately \$78,374,334.30 (the "Prepetition Indebtedness"), comprised of (i) \$41,033,893.58 under the Stoli Revolver and (ii) \$37,340,440.72 under the KO Revolver, all of which is due and owing under the Prepetition Loan Documents.
- Debtor KO is also a borrower under that certain Loan Agreement, dated November 29, 2017, by and between Debtor KO and SPI Worldwide Trade Limited, as successor to SPI Group S.a.r.l. (the "Subordinate Lender"), as from time to time amended, supplemented, restated, or otherwise modified (the "Subordinate Loan Documents"), providing for a delayed draw term loan of up to \$25,000,000 (the "Subordinate Loan"). The Subordinate Loan is unsecured, bears interest at a rate of 3% per annum, and all amounts borrowed under the Subordinate Loan mature on December 31, 2027. As of the Petition Date, the Debtors owe \$6,151,299.00 under the Subordinate Loan Documents.
- In addition to the Debtors' outstanding obligations under the Prepetition Loan Documents and the Subordinate Loan Documents, the Debtors also have unsecured debt obligations, including amounts owed to, among others, trade creditors, vendors, shippers, and contract counterparties, which are subject in all respects to the Debtors' rights to dispute.

Interim Cash Collateral Budget

Weekly Cash Flow Summary

Stoll USA

Amounts in USD

Week #	1	2	3	4	5	Totals
2024	2024	2024	2024	2024	2024	11/29/2024
Week Ending*	Week Ending	Week Ending	Week Ending	Week Ending	Week Ending	To
11/29/2024	12/6/2024	12/13/2024	12/20/2024	12/27/2024	12/27/2024	12/27/2024
Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	
Gross Sales	1,276,728	851,152	1,276,728	2,127,880	2,609,516	8,142,005
Operating Cash Flows:						
AR Collections	218,246	2,236,905	2,806,702	1,459,058	1,166,964	7,887,875
Total Operating Receipts	218,246	2,236,905	2,806,702	1,459,058	1,166,964	7,887,875
Disbursements - Personnel and Benefits:						
Wages & Salary	-	-	287,189	-	290,152	577,341
Employee Benefits	-	45,000	6,500	132,500	1,500	185,500
Total Personnel and Benefits	-	45,000	293,689	132,500	291,652	762,841
Disbursements - COGS and Operating Expense:						
Inventory Receipts (For Reference Only)	297,303	2,586,889	1,237,573	2,165,473	252,567	6,539,808
Production - Inventory, Etc.	-	200,000	1,500,000	1,500,000	940,000	4,140,000
Production - Kentucky Owl	-	-	80,000	-	80,000	160,000
Marketing	-	-	35,000	35,000	35,000	105,000
Tax	-	250,000	250,000	250,000	50,000	800,000
Logistics Suppliers	-	55,000	165,000	110,000	50,000	380,000
Broker & Distributors	-	-	-	-	-	-
Travel & Employee Reimbursements	-	35,000	-	35,000	-	70,000
Office Supplies & IT	-	-	8,500	-	8,500	17,000
Professional Fees (1)	94,000	149,000	149,000	149,000	149,000	690,000
Insurance	-	80,000	-	-	-	80,000
Office rent	-	-	110,000	-	-	110,000
Other SG&A	-	20,000	40,000	40,000	25,000	125,000
Risk Contingency	-	25,000	25,000	25,000	25,000	100,000
Total COGS and Operating Expense	94,000	814,000	2,362,500	2,144,000	1,362,500	6,777,000
Total Operating Disbursements	94,000	859,000	2,656,189	2,276,500	1,654,152	7,539,841
Cash Flows from (used in) Operations	124,246	1,377,905	150,513	(817,442)	(487,188)	348,034
Cumulative Cash from (Used in) Operations	124,246	1,502,151	1,652,664	835,222	348,034	
Financing & Other Cash Flows:						
Debt Service	-	-	-	-	-	-
Financing Fee-White Oak	-	-	-	-	-	-
Cash Flows from (source) Financing Activities	-	-	-	-	-	-
Net Cash Flow	124,246	1,377,905	150,513	(817,442)	(487,188)	348,034
Cumulative Net Cash Flow (Usage)	124,246	1,502,151	1,652,664	835,222	348,034	

(1) Included professional fees represent accrued amounts, to be paid upon court approval.

* Week begins at 5:00pm est. 11/27/24

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